Report

of the

Examination of

Wausau-Stettin Mutual Insurance Company

Wausau, Wisconsin

As of December 31, 2004

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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November 11, 2005

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2004, of the affairs and financial condition of:

WAUSAU-STETTIN MUTUAL INSURANCE COMPANY
Wausau, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Wausau-Stettin Mutual Insurance Company (the company) was made in 2000 as of December 31, 1999. The current examination covered the intervening time period ending December 31, 2004, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on January 1, 1998, with the consolidation of two town mutuals: Wausau Mutual Insurance Company, organized in 1875, and Stettin Mutual Insurance Company, organized in 1876 under the provisions of the then existing Wisconsin Statutes. During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The amendment to the articles was an expansion of the company's territory.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following fourteen counties:

Chippewa	Price
Clark	Rusk
Langlade	Shawano
Lincoln	Taylor
Marathon	Vilas
Oneida	Waupaca
Portage	Wood

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one and three years with premiums payable on the advance premium basis. The company also charges a policy fee for policies paying on an installment basis. The fee is $3.00 per billing statement.

Business of the company is acquired through 203 agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All policies	17%

However, there is an exception for two agents who are compensated at a lower rate on two books of business that are still in existence that were formerly serviced by Wausau Mutual employees.

Agents do not have authority to adjust losses. Losses are adjusted by the company's claims department. Adjusters receive a salary and are reimbursed for mileage and meals.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Wendall Bauman	Retired Farmer	Edgar, WI	2008
Stanley Beilke*	Insurance Agent	Marathon, WI	2008
Karl Block	Retired Fireman	Wausau, WI	2007
William Burgener	Chairman, Town of Merrill	Merrill, WI	2006
Wallace Emmerich	Demolition Expert Qualix Photo Finishing	Athens, WI	2007
Kenneth Leick	Retired Farmer	Stratford, WI	2006
Al Soczka, Jr.	Foreman Central Concrete Cutting	Edgar, WI	2008
DuWayne Zamzow	Insurance Adjuster	Merrill, WI	2006
Raynard Zunker	Clerk, Town of Stettin	Wausau, WI	2007

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $125 for each meeting attended and reimbursement of reasonable travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2004 Compensation
Raynard Zunker	President	$ 6,650
William Burgener	Vice President	3,180
DuWayne Zamzow	Secretary	5,770
Brooks Lofstedt	General Manager	65,000

The current manager's salary reported above is the amount in the employment contract. The general manager is also subject to a bonus program, which at maximum increases the salary by 10%.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Raynard Zunker, Chair
DuWayne Zamzow
William Burgener

Investment Committee
DuWayne Zamzow, Chair
William Burgener

Claims Committee
DuWayne Zamzow, Chair
William Burgener

Long Range Planning Committee
Wendell Bauman, Chair
Al Soczka
Wallace Emmerich

Farm Safety Committee
Karl Block, Chair

Scholarship Committee
DuWayne Zamzow, Chair
Al Soczka
Kenneth Leick

Handbook Committee
DuWayne Zamzow

Nominating Committee
Karl Block, Chair
Wallace Emmerich
Raynard Zunker

Search Committee
DuWayne Zamzow, Chair
William Burgener
Al Soczka

Grants Committee
Bill Burgener, Chair
Wallace Emmerich
Kenneth Leick

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2004	$4,071,888	9,924	$829,561	$11,050,030	$6,951,057
2003	3,649,658	9,259	696,995	9,641,896	6,049,357
2002	3,473,029	8,785	627,474	8,745,748	5,348,293
2001	3,205,668	8,124	420,532	7,829,072	4,770,807
2000	3,068,870	7,850	636,101	7,400,525	4,367,796
1999	2,986,583	7,637	602,980	6,630,138	3,704,686

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios	
				Net	Gross
2004	$5,992,570	$4,345,816	$6,951,057	86%	63%
2003	5,423,890	3,880,602	6,049,357	90	64
2002	4,950,850	3,710,293	5,348,293	93	69
2001	4,384,722	3,349,118	4,770,807	92	70
2000	4,053,328	3,119,790	4,367,796	93	71
1999	3,878,546	2,895,359	3,704,686	105	78

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2004	$1,618,226	$1,605,416	$4,071,888	40%	37%	77%
2003	1,570,580	1,425,826	3,649,658	43	37	80
2002	1,720,762	1,252,770	3,473,029	50	34	83
2001	1,798,074	1,132,239	3,205,668	56	34	90
2000	1,471,495	1,055,332	3,068,870	48	34	82
1999	1,443,776	1,006,099	2,986,583	48	35	83

The company has reported an impressive rate of growth over the examination period. Net Premium Earned, Policies In Force, Admitted Assets and Policyholders' Surplus have all increased for the past five consecutive years. The company reported a net income for each year, and net income has increased for three consecutive years, which corresponds with three consecutive years of decreasing Net Losses and LAE.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2005
Termination provisions:	Cut-off for property coverage Cut-off or Run-off (determined by company) for casualty coverage

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Excess of Loss
	Lines reinsured:	Casualty
	Company's retention:	$8,000
	Coverage:	Reinsurer shall be liable for 100% of each and every loss occurring on business covered, in excess of the company’s net retention, subject to the following maximum policy limits: a. $1,000,000 per occurrence, single limit, combined for bodily injury and property damage liability. b. $1,000,00 split limits, in any combination of bodily injury and property damage liability. c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	42% of liability premium
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	Property
	Company's retention:	If the net retention is $400,000 or more on a risk, the company may cede on a pro rata basis up to $800,000. If net retention is $400,000 or less, the company may cede up to 50% on a pro rata basis.
	Coverage:	Pro rata portion of each and every loss, including loss adjustment expense.
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded hereunder.

	Ceding commission:	15% of the premiums paid to the Reinsurer. 15% of the net profit, if any, accruing to the Reinsurer.
3.	Type of contract:	Class C-1 Excess of Loss – First Layer
	Lines reinsured:	Property
	Company's retention:	$50,000 in respect to each and every risk resulting from one loss occurrence.
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $50,000 subject to a limit of $100,000 per occurrence.
	Reinsurance premium:	Percentage of net premium written (NPW) based upon loss experience. Minimum = 6%; Maximum = 15%
4.	Type of contract:	Class C-2 Excess of Loss – Second Layer
	Lines reinsured:	Property
	Company's retention:	None
	Coverage:	$250,000 excess of $150,000
	Reinsurance premium:	2.5% of NPW. Deposit Premium of $127,200 payable in monthly installments of $10,600. The minimum premium for the current year is $100,000.
5.	Type of contract:	Class D/E-1 First Layer Aggregate Stop Loss
	Lines reinsured:	Property
	Company's retention:	Part A – Catastrophe = $120,000 of net losses (excluding LAE) arising out of each loss occurrence. Part B – Stop Loss = 60% of NPW, subject to a minimum retention of $2,300,000.
	Coverage:	Part A – 100% of losses in excess of the company's retention, up to $500,000 per occurrence and $1,000,000 aggregate. Part B – 100% of losses in excess of the company's retention.
	Reinsurance premium:	A percentage on NPW based upon loss experience. Minimum = 6.25%; Maximum = 25% of NPW Deposit premium of $346,203 payable in $28,850 each month. Minimum premium for the year is $260,000.

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Wausau-Stettin Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2004

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	$ 500	$	$	$ 500
Cash deposited in checking account	42,401			42,401
Cash deposited at interest	6,868,103			6,868,103
Bonds	2,258,722			2,258,722
Stocks and mutual fund investments	607,721			607,721
Real estate	168,113			168,113
Premiums, agents' balances and installments:				
In course of collection	29,197			29,197
Deferred and not yet due	959,848			959,848
Investment income accrued		66,397		66,397
Reinsurance recoverable on paid losses and lae	2,622			2,622
Electronic data processing equipment	18,045			18,045
Other expense related assets:				
Reinsurance commission receivable	28,361			28,361
Furniture and fixtures	18,550		18,550	
Totals	$11,002,183	$66,397	$18,550	$11,050,030

Liabilities and Surplus

Net unpaid losses	$ 389,450
Unpaid loss adjustment expenses	7,800
Commissions payable	419,623
Fire department dues payable	2,496
Federal income taxes payable	83,846
Unearned premiums	2,920,543
Reinsurance payable	100,719
Payroll taxes payable (employer’s portion)	874
Other liabilities:	
Expense related:	
Accounts payable	80,285
Accrued property tax	21,005
Nonexpense related:	
Premiums received in advance	67,224
Rent security deposits	3,360
Capital lease payable	1,748
Total Liabilities	4,098,973
Policyholders' surplus	6,951,057
Total Liabilities and Surplus	$11,050,030

Wausau-Stettin Mutual Insurance Company
Statement of Operations
For the Year 2004

Net premiums and assessments earned		$4,071,888
Deduct:		
Net losses incurred	$1,200,373	
Net loss adjustment expenses incurred	417,853	
Other underwriting expenses incurred	1,605,416	
Total losses and expenses incurred		3,223,642
Net underwriting gain (loss)		848,246
Net investment income:		
Net investment income earned	379,100	
Net realized capital gains	2,827	
Total investment gain (loss)		381,927
Other income (expense):		
Miscellaneous	35	
Installment and policy fees	59,616	
Total other income		59,651
Net income (loss) before federal income taxes		1,289,824
Federal income taxes incurred		460,263
Net Income (Loss)		$ 829,561

Wausau-Stettin Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2004

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2004	2003	2002	2001	2000
Surplus, beginning of year	$6,049,357	$5,348,293	$4,770,807	$4,367,796	$3,704,686
Net income	829,561	696,995	627,474	420,532	636,101
Net unrealized capital gains or (losses)	67,835	(8,141)	(39,671)	(7,934)	28,899
Change in nonadmitted assets	4,304	12,210	(10,317)	(9,587)	(1,895)
Rounding					5
Surplus, end of year	$6,951,057	$6,049,357	$5,348,293	$4,770,807	$4,367,796

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2005, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Accounts and Record—It is suggested the company keep premiums received in a fireproof box at the company.

   Action—Compliance

2. Invested Assets—It is recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regards to custody and control of its invested assets in regards to having two officers, directors or employees of the company to be present to access the safety deposit.

   Action—Compliance

3. Cash and Invested Assets—It is suggested that the company adjust the petty cash fund to the control amount.

   Action—Compliance

4. Investment Real Estate—It is recommended that the company divest their investment real estate within three years from adoption of this report.

   Action—Additional comment on this finding can be found in the "Current Examination Results" section below.

5. Lease Payable—It is recommended that the company record the lease payable on the parking lot as a liability instead of a deduction from the asset.

   Action—Compliance

Current Examination Results

Agent Listing

OCI's list of agents for the company was compared to the company's agent list. It was identified that the company had not communicated changes to OCI. Section 628.11, Wis. Stat., requires that an insurer report to the commissioner all appointments, renewals of appointments, and all terminations of appointments of insurance agents. It is recommended that company report to the commissioner all appointments, renewals and terminations of insurance agents, pursuant to s. 628.11, Wis. Stat.

Reinsurance Program

During the review of the company's reinsurance program, two unexpected practices were identified. First, not all risks on policies that exceed the limit of the company's reinsurance treaties were ceded under facultative agreements. The risks excluded from coverage appear to have been selected entirely at the discretion of a former employee and not based upon a written policy approved by the board of directors. Second, the company has not been claiming coverage for some claims under class B of the reinsurance contract. While these practices may or may not be detrimental to the company, the fact that they were undertaken without knowledge or approval of the board suggests a need for the company and the board of directors to gain a better understanding of its reinsurance program and the related business practices. Therefore, it is recommended that the company review the current reinsurance program and, at a minimum, define procedures to be followed regarding the cessions of facultative risks and the submissions of reinsurance claims.

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted. However, not all directors had completed a questionnaire for each year during the examination period. It is recommended that the company receive conflict of interest questionnaires from all directors each year during a director's term.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$350,000
Worker's Compensation:	
Employee injury	Statutory
Employee liability:	
Bodily injury by accident	500,000 each accident
Bodily injury by disease	500,000 policy limit
Bodily injury by disease	500,000 each employee
Businessowners policy	
Liability	1,000,000 each occurrence
Medical expense	5,000 per person
Premise #1	
Building	1,047,280
Business personal property	85,280
Premise #2	
Building	253,760
Business income	12 month actual loss sustained
Outdoor personal property	5,000
Debris removal additional limit	5,000

Type of Coverage	Coverage Limits
Commercial umbrella	
Each occurrence	$1,000,000
General aggregate	2,000,000
Personal and advertising limit	1,000,000
Products-completed operations aggregate	1,000,000
Insurance company professional liability (A)	2,000,000 each claim 2,000,000 aggregate for policy period
Directors and officers (B)	2,000,000 each claim 2,000,000 aggregate for policy period
Total for (A) and (B)	2,000,000 aggregate for policy period
Bank deposit guaranty bond	2,800,000

Underwriting

The company has three written underwriting guides. The guides cover all the lines of business that the company is presently writing. One applies the “Old Wausau” book of business, one applies to the “Old Stettin” book of business, and the third applies to the new policies that have been written since April 2000. After the consolidation in 1998, new business was written either under “Old Wausau” or “Old Stettin” programs, as the agent felt was in the best interest of each new policyholder. In April 2000, agents began writing new policies from a new guide and all new business since that date has been underwritten under this program. Policyholders that currently hold “Old Wausau” or “Old Stettin” policies have the option of switching to the new program (if they qualify) or keeping the policy they currently have. The company allows agents to use their judgment in offering renewals under the old programs or the new program depending on whether the policyholder would qualify for and benefit from this new program.

The company has a formal inspection procedure for both new and renewal business. All new applications and renewal business (as needed) is inspected by underwriting staff who are independent of the risk under consideration and review.

The company identified that it had previously written logging equipment that was not supplemental coverage to property in a fixed location. It is recommended that the company comply with s. 612.31 (4), Wis. Stat., and nonrenew inland marine coverage that is not supplementary to coverage of property in a fixed location.

During the review of policies it was identified that not all policies had a signed undertaking to pay premiums and assessments which acknowledges that the policyholder is obligated to pay premiums and any assessments should they be levied by the company. An applicant for insurance is required to sign an undertaking to pay premiums and assessments pursuant to s. 612.52, Wis. Stat.

The policy files did not have the signatures due to a document retention policy by the former Wausau Mutual Insurance Company. The policy permitted the removal of documents after a period of ten years and included the original policy application. It is recommended that the company have policyholders under the Wausau book of business sign an undertaking statement, if one is not currently on file, pursuant to s. 612.52, Wis. Stat., and that the company retain those signed undertakings for as long as the policyholder remains with the company, pursuant to s. Ins 6.80, Wis. Adm. Code.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2004.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

The company does not have manuals documenting the use of its software and outlining the steps to complete specific tasks. However, technical assistance is available over the Internet and over a customer service call center. The technical assistance aids in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan and the company's plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or

vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3 in the table on the following page.

The company has a number of deposits with one financial institution that exceed the FDIC insurance limit of $100,000. Deposits in excess of this limit are not considered Type 1 investments. The company has attempted to secure the excess amount in two ways. The first is by purchasing a bank deposit guaranty bond, and the second is that the remaining deposits are secured by collateral held in the bank's custody. While these efforts to secure deposits are important, there are aspects of these arrangements that do not conform to the investment rule.

First, the company was informed by this office during the examination period that it would be acceptable to use a bank deposit guaranty bond to secure additional deposits, which would qualify as Type 1 assets, but only to the extent of 10% of the company's assets. The company has exceeded this limit by approximately $1.7 million, and the Type 1 amount in the calculation below is adjusted to reflect this.

Second, OCI's interpretation of the investment rule is that in order for a collateralized deposit to qualify as a Type 1 investment, the collateral must be in the company's custody. However, the collateral appears to be held by the bank and therefore none of the deposits secured in this can be counted as Type 1 investments. At year-end the company had approximately $3.9 million collateralized by securities held by the bank. This adjustment is also included in the calculation below.

1.	Liabilities plus $300,000	$4,398,973
2.	Liabilities plus 33% of gross premiums written	6,076,521
3.	Liabilities plus 50% of net premiums written	6,271,881
4.	Amount required (greater of 1, 2, or 3)	6,271,881
5.	Amount of Type 1 investments as of 12/31/2004	5,542,114
6.	Excess or (deficiency)	$ (729,767)

With the two adjustments to Type 1 investments, the company is Type 1 deficient by $729,767. Pursuant to the investment rule, the company shall not purchase any Type 2 investments when it is deficient in Type 1 investments. The company could come into compliance by placing some of its bank deposits in other institutions using the Certificate of Deposit Account Registry Service (CDARS) or by gaining custody of the collateral pledged by the bank.

It is recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

ASSETS

Cash and Invested Cash **$6,868,103**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 500
Cash deposited in banks checking accounts	42,401
Cash deposited in banks at interest	6,868,103
Total	$6,868,103

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of five accounts maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 40 deposits in 22 depositories. Deposits were verified by direct correspondence with the respective depositories. Interest received during the year 2004 totaled $264,561 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 3.2% to 7.0%. Accrued interest on cash deposits totaled $35,610 at year-end.

Book Value of Bonds **$2,258,722**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2004. Bonds owned by the company are located at a bank under a custodial agreement.

The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2004 on bonds amounted to $143,887and was traced to cash receipts records. Accrued interest of $30,787 at December 31, 2004, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$607,721**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2004. Stocks owned by the company are held by the company's custodian or located in the company's safety deposit box.

Stock certificates were physically examined by the examiners. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2004 on stocks and mutual funds amounted to $9,651 and were traced to cash receipts records. There were no accrued dividends at December 31, 2004.

Book Value of Real Estate **$168,113**

The above amount represents the company's investment in real estate as of December 31, 2004. The company's real estate holdings consist of two parcels of land, a parking lot and two buildings. One building includes the company's home office. Portions of this building are currently rented out to various businesses. Rental agreements were reviewed and appeared to be adequate.

The company currently leases out the second building, which was the Wausau Mutual home office building acquired as part of the consolidation. The previous examination report noted that the company had tried to sell this building but received offers much lower than the building's appraised value. It was then decided by the company to lease out this building to bring in rental income. The previous examination also identified that this is not in compliance with s. Ins 6.20 (6) (d) 6., Wis. Adm. Code, which states that a town mutual is permitted to own "Real property needed for the convenient transaction of the insurer's business, provided that the insurer obtains prior written approval from the commissioner." However, this building is too small to accommodate the company's current and anticipated staffing level, so it is very unlikely that the company would ever use it as a future home office building. If the company intends to continue to hold this real estate, it should seek permission from this office, pursuant to s. Ins 6.20 (6) (a), Wis. Adm. Code.

The required documents supporting the validity of this account were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection **$29,197**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **$959,848**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **$66,397**

Interest due and accrued on the various assets of the company at December 31, 2004, consists of the following:

Cash at interest	$264,625
Bonds	131,647
Stocks and mutual funds	9,651
Real estate	62,304
Total	$468,227

Investment Income Accrued amounts were reviewed and the balance appeared reasonable.

Reinsurance Recoverable on Paid Losses and LAE **$2,622**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2004. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$18,045**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2004. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Reinsurance Premium Recoverable **$2,622**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2004. The examiners verified the balance directly with the reinsurer.

Reinsurance Commission Receivable **$28,361**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2004, based on the profitability of the business ceded under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Furniture and Fixtures **$0**

This asset consists of $18,550 of furniture and equipment owned by the company at December 31, 2004. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$389,450**

This liability represents losses incurred on or prior to December 31, 2004, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2004, with incurred dates in 2004 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$617,602	$609,330	$ 8,272
Less: Reinsurance recoverable on unpaid losses	228,136	258,021	(29,885)
Net Unpaid Losses	$389,466	$351,309	$38,157

The above difference of $38,157 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

The examination recompiled the company's unpaid loss reserve from the loss register. While the balance was reasonable based on the loss register, inaccuracies were detected when comparing the detail of the balance to the loss register. The detail of the balance, which was prepared during the compilation of the annual statement, contained all of the inaccuracies and none were material. To avoid this in the future, the company should improve the accounting controls for reporting net unpaid losses. It is recommended that the company improve the accounting controls for reporting net unpaid losses.

Unpaid Loss Adjustment Expenses **$7,800**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2004, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is the number of open claims multiplied by a fixed amount.

The examiners’ analyzed three years of data comparing the ratio of paid loss adjusting expense to paid losses to estimate this liability. When the estimate was compared to the company’s balance, it was determined that the liability was inadequate. The company should have established a reserve for loss adjusting expense of about $50,000. Because the difference of $42,200 is not material compared to the surplus of $6.95 million, no adjustment was made.

However, it is recommended that the company estimate unpaid loss adjustment expenses as a percentage of unpaid loss reserves, with the percentage based on the amount historically paid in loss adjustment expenses as a proportion of paid losses.

Commissions Payable **$419,623**

This liability represents the commissions payable to agents as of December 31, 2004. The examiners reviewed the company’s commission calculation and found the liability to be reasonably stated.

Fire Department Dues Payable **$2,496**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2004. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Federal Income Taxes Payable **$83,846**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2004. The examiners reviewed the company's 2004 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **$2,920,543**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. The examiners verified the balance by comparing it to a year-end unearned premium report, and recalculated a sample of unearned premium from that same report.

Reinsurance Payable **$100,719**

This liability consists of amounts due to the company's reinsurer at December 31, 2004, relating to transactions which occurred on or prior to that date. These amounts consist of the estimated payable at year-end based upon the reinsurer's adjusted calculations, and the amount payable for deferred premium. The review of the subsequent payment verified the amount reported.

Payroll Taxes Payable **$874**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2004, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$80,284**

This liability consists of accrued expenses, accrued wages, emergency grants, and scholarship fund. The balance was agreed to the supporting reports, and a sample of subsequent payments were selected from these reports. To test the sample, copies of the cancelled checks were reviewed.

Accrued Property Taxes **$21,005**

This liability represents property taxes payable as of December 31, 2004. Supporting records and subsequent cash disbursements verified this amount.

Premiums Received in Advance **$67,224**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2004. The examiners reviewed 2004 premium and cash receipt records to verify the accuracy of this liability.

Rent Security Deposits **$3,360**

This liability represents security deposits made by the company's tenants. Due to the size of the account (less than ½% of surplus) substantive testing was not performed.

Capital Lease Payable **$1,748**

This liability represents the amount owed for the use of a parking lot. Due to the size of the account (less than ½% of surplus) substantive testing was not performed.

Payroll Taxes Payable **$874**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2004, which had not yet been paid. Due to the size of the account (less than ½% of surplus) substantive testing was not performed.

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V. CONCLUSION

There were seven recommendations as a result of the examination. There were no adjustments to surplus and no reclassifications were made. Overall, the examination determined that the company had policyholders' surplus of $6,908,857 and admitted assets of $11,050,030

During the examination period the company reported five consecutive years of growth for net premiums, policies in force, admitted assets and policyholders' surplus. Net income also increased for three consecutive years and was reported as $829,561 in 2004.

The company appears to be serving policyholders well by maintaining a sufficient amount of surplus, maintaining a risk adverse investment portfolio, and making timely claim payments.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 13 - Agent Listing—It is recommended that company report to the commissioner all appointments, renewals and terminations of insurance agents, pursuant to s. 628.11, Wis. Stat.

2. Page 13 - Reinsurance Program—It is recommended that the company review the current reinsurance program and, at a minimum, define procedures to be followed regarding the cessions of facultative risks and the submissions of reinsurance claims.

3. Page 14 - Conflict of Interest—It is recommended that the company receive conflict of interest questionnaires from all directors each year during a director's term.

4. Page 15 - Underwriting—It is recommended that the company comply with s. 612.31 (4), Wis. Stat., and nonrenew inland marine coverage that is not supplementary to coverage of property in a fixed location.

5. Page 16 - Underwriting—It is recommended that the company have policyholders under the Wausau book of business sign an undertaking statement, if one is not currently on file, pursuant to s. 612.52, Wis. Stat., and that the company retain those signed undertakings for as long as the policyholder remains with the company, pursuant to s. Ins 6.80, Wis. Adm. Code.

6. Page 24 - Net Unpaid Losses—It is recommended that the company improve the accounting controls for reporting net unpaid losses.

7. Page 25 - Unpaid Loss Adjusting Expenses—It is recommended that the company estimate unpaid loss adjustment expenses as a percentage of unpaid loss reserves, with the percentage based on the amount historically paid in loss adjustment expenses as a proportion of paid losses.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Rick Anderson of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Bill C. Genné
Examiner-in-Charge